

Chapter 9

Key Findings and Recommendations

Drawing on the results presented in previous chapters, we present key findings and recommendations for enhancing the Arizona-Sonora region's agribusiness sector. Some of the most noteworthy findings of the study are highlighted below.

9.1 Key Findings

- ◆ Global trends and survey results indicate that the agribusiness sector is becoming more global in scope and form. 72 and 74 percent of Sonora and Arizona respondents, respectively, feel that trade will be more important to their business in 5 years than it is today. Only 3 percent of Sonora respondents and 2 percent of Arizona respondents felt that trade will be less important to their business five years from now. Furthermore, 69 percent of Sonora and 48 percent of Arizona respondents feel that NAFTA will have a positive impact on their profits in 5 years. The Region's agribusiness dynamics are strongly influenced and shaped by global trends such as the opening and globalization of markets, information and communication technology, transportation innovations, and shifts in dietary and consumption patterns. Protectionism in agriculture still remains, particularly under the form of non-tariff trade barriers, but protection is diminishing across most international borders.
 - ◆ Transborder linkages within the Region's agribusiness sector indicate that production agents and marketing firms are perhaps the most developed of all economic sectors in the Region. Agribusiness represents a prime example of the functioning of a complex transborder system and network, mainly driven by private agents and firms. The level of integration comprises all phases of the economic cluster: labor-resource integration (factor conditions), trade-marketing (demand conditions), technical-production (related and supporting industries), and capital-investment (firm strategy, structure, and rivalry). Nogales is arguably the most important gateway for agribusiness trade flows between Mexico and the US. Estimates indicate that about 25 percent of the total US consumption of winter produce is
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trucked through Nogales from Mexico, representing around 60 percent of total US imports of horticultural products from Mexico.

- ◆ Technical assistance and input trade for Arizona has increased with Sonora while it has declined with the rest of Mexico. 14 percent of Arizona respondents purchased production inputs or received technical assistance from Sonora in the last 4 to 10 years and this increased to 20 percent for the last 3 years. Whereas, with respect to the rest of Mexico, 11 percent of Arizona respondents indicated they received technical assistance or purchased production inputs from Sonora in the last 4 to 10 years and this dropped slightly to 9 percent for the last 3 years.
 - ◆ Integration, complementarity, and regional specialization has allowed firms to become more competitive. This is particularly evidenced in the crop sector and some segments of the livestock industry. In the crop sector, Sonora imports a wide range of inputs from Arizona like seeds, equipment, machinery and services. At the same time Sonora exports fresh produce and a substantial labor force to Arizona, particularly Yuma. Comparative advantages are also observed in the livestock sector. Sonora exports feeder cattle to Arizona to take advantage of lower feed prices to produce grain fed beef. In turn, Arizona has a cost advantage in sending grain fed meat products back to Sonora. Sonora also imports breeding livestock from the US to upgrade their herds. Arizona's dairy industry exports some dairy products and fresh milk to Sonora and has potential for expansion.
 - ◆ NAFTA was felt to have had a positive impact on profits by 55 percent of Sonora respondents and only 15 percent of Arizona participants. The impact of the 1994 peso devaluation was more divided for Sonora since 39 percent reported a positive impact on profits, 45 percent a negative impact, and 16 percent no impact. 41 percent of Arizona respondents felt the peso devaluation decreased their profits, 50 percent reported no impact, and 8 percent indicated a positive impact.
 - ◆ Language skills are fairly adequate for in-house translation capabilities. Over 72 percent of Arizona and 77 percent of Sonora participants have someone in their organization that speaks Spanish and English fluently. Survey participants on both sides of the border are well aware of the other border state and display aptitude and interest in cross-border agribusiness activities. This is an encouraging sign and speaks well of the Region's agribusiness sector.
 - ◆ Internet access and communication capabilities of survey participants are quite good. About half of the Arizona-Sonora agribusiness respondents are equipped to take advantage of the latest in information technology and Internet so that this tool may be a good way to disseminate information regarding trading regulations and opportunities. Because the sample is not random but, by design, includes more "agribusiness leaders" and agribusinesses involved with trade, these numbers are high for the average of both states.
 - ◆ Phytosanitary requirements are more political than scientifically based. 51 percent of Arizona participants agree that phytosanitary requirements at the
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border are more political than scientifically based with only 12 percent disagreeing (37 percent had no opinion). Thus among agribusiness individuals, there is a general consensus that phytosanitary conditions are political and should be put on a more scientific basis.

- ◆ Little consensus was found that Arizona agribusiness firms believe that Sonora or the rest of Mexico are competitors for them. Crop producers from Arizona are the exception. 32 percent of Arizona crop producers strongly agree and another 15 percent agree that Sonora is a competitor for their business. Sonoran agribusinesses do not view Arizona as a competitor for their business but crop and food processing individuals from Sonora view the rest of the US as a competitor for their business.
 - ◆ Agribusiness opportunities were felt to be better in Sonora than the rest of Mexico by Arizona respondents. Whereas, Sonora respondents felt that agribusiness opportunities were generally better for them in the rest of the US than Arizona. Participants from both states strongly feel that each others states and countries have expanding markets for their business.
 - ◆ Streamlining border crossing formalities and minimizing delays at the border were ranked as the most important issue to be addressed for promoting regional agribusiness on both sides of the border. Crop and food processing individuals most strongly voiced this concern.
 - ◆ Legal agreements that offer enforcement of contracts between Arizona and Sonora individuals are of utmost importance for capital to flow from Arizona to Sonora. A PACA-type legal agreement is essential for enhanced produce flow into Mexico. Understandably, cross-border legal issues are more important for Arizona agribusiness than Sonora's.
 - ◆ Unified standards and grades were strongly suggested as a necessity for Sonoran agricultural products. Arizonan participants also agree that a USDA type of certification is needed for US consumers to accept products from Mexico.
 - ◆ Loan defaults and the inability of creditors to secure property in Sonora greatly restricts credit flows from Arizona to Sonora. Better communication and technology transfer between universities and industry could be one of the better long-term strategies available for attracting more capital to the Region since companies that work closely with universities earn a higher rate of return than their counterparts.
 - ◆ Sonoran transportation and cooling infrastructure is lacking. Sonora and Arizona respondents ranked improvements in transportation and communication infrastructure near the top for enhancing agribusiness in the Region. As trade and regional joint ventures increase, inadequacy of Sonoran infrastructure will be a limiting factor for regional agribusiness development.
 - ◆ Statistical information is unavailable to make equal comparisons with Arizona and Sonora. Statistical information about Sonoran agriculture and agribusiness is inadequate, inconsistent and difficult to access. Sonora's
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agricultural statistic personnel at the higher level are politically appointed. Subsequently, political circumstances provide incentives for the inaccurate reporting of information. Lack of information and contacts was cited by Arizona survey participants as a reason for not doing business in Mexico.

9.2 Recommendations

In arriving at the recommendations below, considerable weight was given to the responses of survey participants in both Arizona and Sonora. Many of the recommendations address problems and concerns on both sides of the border.

- ◆ Delays and red-tape at the border have been a costly item for agribusinesses moving perishable products and live cattle across the border. We recommend that border crossing formalities for products be streamlined, especially for custom procedures. This should be a top priority in any agenda for promoting Arizona-Sonora agribusiness. Survey participants in crop and food processing sectors on both sides of the border ranked this as the single most important issue to be addressed for promoting regional agribusiness. We recommend a speedy completion of the unified port management project which brings full modernization to border points of entry.
- ◆ **Legal issues** related to contract enforcement and property ownership rights in Sonora are important for Arizona and Sonora joint venture and investment activities. For the produce industry, a Perishable Agricultural Commodities Act (PACA) system in Sonora would alleviate many concerns and risks related to payments and dispute settlement. Efforts should be made to develop a legal system that offers enforcement of contracts between Arizona and Sonora individuals with appropriate financial consequences.

Similarly, A **Bilingual Regional Agency** (BRA) could offer a certified trading license for legal contracts made between Arizona and Sonora agribusinesses. A bond license would be required for individuals to attain a certified trading license. The program would be voluntary and should have at least three different levels of bond required, depending on the amount of their trade transaction(s). Individuals would lose their bond money and good standing with the BRA if they did not fulfill all contracts and agreements made in accordance with BRA guidelines. All BRA members will have the right to know the history and current standing of past and current members. The BRA would provide some compensation to the damaged party in a timely manner using bond moneys.

Loan default is a serious problem in Sonora. Legal arrangements need to be made so that rights of ownership and property liens can be settled in a fair and timely manner before capital and products will flow easily from Arizona to Sonora.

- ◆ Efforts should be made to unify or mutually recognize **standards and grading**. This was rated as one of the most important issues by survey participants on both sides of the border. Grading issues currently limit Arizona beef product exports to Sonora and Mexico. Unified standards and grades were strongly suggested as a necessity for Sonoran agricultural products. Arizona participants also agreed that a USDA type of certification was needed for US consumers to accept products from Mexico. Unified Hazard Analysis Critical Control Point (HACCP) procedures will assure US consumers that products from Sonora are safe.
 - ◆ Complementarities between **Sonora's feeder industry and Arizona's feedlots** should be enhanced by seeking APHIS approval for the "pilot project" of feeding intact heifers from Sonora. Procedures and language for the "in-bond" feeding program prior to NAFTA should be followed. Working together to impact federal legislation in Washington D.C. and Mexico City was favorably rated by over 70 percent of Arizona and Sonora respondents.
 - ◆ As trade and regional joint ventures increase, inadequacy of **Sonoran infrastructure** will present itself as a bottleneck for regional agribusiness development. Capital investment for improving Sonoran transportation infrastructure and cooling facilities is necessary for the Arizona-Sonora agribusiness to grow in the long-run. An improvement in the Sonoran rail and road transportation infrastructure is essential for the Guaymas port to be a viable outlet for Arizona exports abroad.
 - ◆ Lack of information and contacts was cited by survey participants as one of the reasons for not doing business in Mexico. We recommend that a **directory** of producers, intermediaries, government trade and legal agencies, university faculty, financiers, brokers and sellers associated with agribusiness in Arizona and Sonora be published. Such a directory would be very helpful for agribusiness firms and policy makers on both sides of the border. More information sources for regulations specific to agriculture was highly rated by both states. The directory could be available on a World Wide Web site and/or published in print format. About half of the survey participants indicated they have access to the Internet, so the WWW could be an effective method for disseminating this information.
 - ◆ Survey results indicate that long-standing relationships based on trust are essential for a strong business environment. The strong linkages that already exist between Arizona and Sonora can be considered Arizona's comparative advantage over other states in the rush to trade with Mexico. Building on these linkages, Arizona can use Sonora as a gateway to the rest of Mexico. To this end, we recommend that Arizona businesses make every effort to explore Sonora. Activities we recommend to improve relationships include: **small groups** of 3 to 5 individuals from both Sonora and Arizona with mutual interests to visit operations across the border; **commodity group delegations** with an
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identified production, trade, policy, or educational theme; and the **directory** mentioned earlier. These tools will provide better opportunities for face to face interaction and an understanding of the business atmosphere for cross-border agribusiness activities. These steps and others that facilitate interaction, will improve Arizona's position for future involvement in Sonora and the rest of Mexico. The Arizona-Mexico Commission could be the best organization to help coordinate and facilitate these visits and the directory.

- ◆ We recommend better **communication and technology transfer** between universities and industry since companies that utilize university resources have higher rates of productivity than their counterparts. University faculty should be included as a part of the small group visits, commodity group delegations, and the directory mentioned above.
 - ◆ We recommend that a more coherent and consistent **statistical database for Arizona-Sonora** agriculture be developed and that Sonora remove all "political bias" incentives from their data collection and reporting procedures. Lack of adequate information was noted as a reason for not investing in Mexico. A consistent and politically unbiased database could be modeled after the annual publication, Arizona Agricultural Statistics. As we started working on this project, it became very clear to us that comparable statistical information about Arizona and Sonora agribusiness is difficult to obtain. An exchange of agricultural statistics workers may help facilitate consistency between Arizona and Sonora data series. A more unified database is needed before financial capital can flow with more confidence from investors and entrepreneurs on both sides of the border. Again, the WWW presents itself as an ideal method for disseminating statistical information to agribusiness leaders.
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